

Message Text

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AID-05 EB-07 NSC-05 CIEP-01 TRSE-00 SS-15 STR-01

OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00

XMB-02 OPIC-03 LAB-04 SIL-01 L-02 H-02 PA-01 PRS-01

USIA-06 AGR-05 /093 W

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R 101401Z MAR 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 381

INFO AMEMBASSY BONN

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E.O. 11652: N/A

TAGS: EFIN, ETRD, SZ

SUBJECT: SWISS FOREIGN EXCHANGE AND EXTERNAL TRADE SITUATION

REF: BERN 440

1. SUMMARY. CONTINUING TENDENCY OF SWISS FRANC BE
VERY STRONG AGAINST DOLLAR AND OTHER CURRENCIES HAS
BEEN SUBJECT OF CONSIDERABLE DISCUSSION AND CONCERN
WITHIN SWISS GOVERNMENT, BUSINESS, AND PUBLIC CIRCLES.
ALMOST DAILY ANNOUNCEMENTS OF LAYOFFS AND CURTAILED
WORK SCHEDULES AS WELL AS INDICATIONS OF SLUGGISH
DEMAND FOR SWISS EXPORTS AND FALL-OFF OF FOREIGN
TOURISM (ESPECIALLY FROM US, UK, AND ITALY) HAVE BEEN
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TIED IN MOST INTERPRETATIONS TO RESULTS OF UPWARD

SWISS FRANC FLOAT. END SUMMARY.

2. SOME RECOGNITION EXISTS THAT WHILE MOST PROMINENT ATTENTION FOCUSED ON SF/\$ RATE OF EVEN GREATER CONCERN IN TRADE TERMS IS RELATIONSHIP WITH DM AND OTHER EUROPEAN CURRENCIES. WE THINK THERE IS ALSO UNDERSTANDING IN SOPHISTICATED CIRCLES THAT EXCHANGE RATE PROBLEM IS NOT SOLE CAUSE OF PRESENT STAGNATION BUT HAS AGGRAVATED EFFECTS FOR SWITZERLAND OF GENERAL RECESSIONARY TENDENCIES THROUGHOUT INDUSTRIAL WORLD.

3. FURTHER SF APPRECIATION WOULD UNDOUBTEDLY SPARK ADDITIONAL GOVERNMENT MEASURES TO TRY TO STEM TIDE. THERE IS WIDESPREAD EXPECTATION THAT AMONG NEXT SET OF WEAPONS THAT WOULD BE TRIED MIGHT WELL BE REINSTITUTION OF BAN ON FOREIGN PURCHASES OF SWISS STOCKS AND FIXED-TERM SECURITIES AND/OR MEASURES TO PLUG HOLES IN SUCH EXISTING PROGRAMS AS NEGATIVE-INTEREST FEE ON CERTAIN FOREIGN SF ACCOUNTS IN SWITZERLAND. REQUEST MADE LAST WEEK THAT BANKS REPORT ALL FOREIGN EXCHANGE TRANSACTIONS GREATER THAN \$5 MILLION TO SWISS NATIONAL BANK MAY SIGNIFY FURTHER SNB ATTENTION TO EXCHANGE MARKET. MOST SPECULATION RE POSSIBLE FURTHER ACTIONS CONTINUES BE DIRECTED AT CAPITAL CONTROLS BUT THERE IS INCREASING INTEREST ON PART OF PUBLIC AND SWISS INDUSTRY IN EXAMINING POSSIBLE TRADE MEASURES.

4. IN CONVERSATION WITH E/C COUNSELOR MARCH 6, AMBASSADOR JOLLES, DIRECTOR OF DIVISION OF COMMERCE SAID HE TAKING VERY FIRM STAND AGAINST ANY SWISS TRADE MEASURES AFFECTING EITHER IMPORTS OR EXPORTS, BUT HE ALSO ACKNOWLEDGED THAT PRESSURES TO MOVE IN THAT DIRECTION WERE MOUNTING. JOLLES SAID SITUATION IN SWITZERLAND AS WELL AS IN OTHER COUNTRIES THUS MADE RENEWAL OECD TRADE PLEDGE BY ALL MEMBERS PARTICULARLY IMPORTANT AND TIMELY. GOS WOULD MUCH PREFER AND STILL EXPECTS MARKET DEVELOPMENTS (INTEREST RATE DIFFERENTIALS, ENERGY DEVELOPMENTS, RELATIVE RATES OF EXPANSION, DELAYED EXCHANGE RATE EFFECTS, ETC.) PLUS CAPITAL AND MONETARY MEASURES TO MOVE SWISS FRANC LIMITED OFFICIAL USE

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INTO BETTER RELATIONSHIP WITH DOLLAR AND OTHER MAJOR CURRENCIES.

5. JOLLES SAID MOST OTHER SWISS GOVERNMENT OFFICIALS AND BANKERS REALIZE THAT PROBLEMS OVER LAST SEVERAL WEEKS HAVE BEEN TO CONSIDERABLE EXTENT PECULIAR TO SWISS FRANC RATHER THAN DOLLAR PROBLEM PER SE. BUT SWISS CLEARLY WELCOME ANY INDICATIONS THAT IN

INTERDEPENDENT WORLD AND IN SPIRIT MULTILATERAL
COOPERATION AMONG INDUSTRIAL COUNTRIES PRESENT SITUATION
IS VIEWED AS MATTER OF CONCERN ELSEWHERE AS WELL AS IN
SWITZERLAND.

6. JOLLES CONFIRMED THAT ONE MEASURE ADVOCATED BY SOME
SWISS BUSINESS CIRCLES WOULD BE COMPENSATORY LEVIES
ON IMPORTS AND RESTITUTIONS FOR EXPORTS DESIGNED TO
ADJUST BETWEEN ACTUAL FLOATING RATE ON DAY OF TRANS-
ACTION COMPARED WITH SOME OTHER RATE REGARDED AS
MORE APPROPRIATE IN TRADE TERMS--PRESUMABLY AT LEAST
SF 2.80 TO \$1 (COMPARED WITH CURRENT SPOT RATE IN
SF 2.45 RANGE) AND POSSIBLY LOWER. PROPOSAL WOULD
BE SIMILAR TO EC CAP COMPENSATORY LEVIES. JOLLES
AGREED THAT SUCH MEASURES WOULD HAVE EXPORT SUBSIDY
EFFECTS AND WOULD CAUSE PROBLEMS WITH TRADING PARTNERS.
EFFECT WOULD ALSO BE TO CREATE DOUBLE SWISS FRANC RATE
WITHOUT ADMINISTRATIVE AND OTHER COMPLICATIONS OF
TWO-TIER EXCHANGE MARKET. SHOE, WATCH, AND TEXTILE
INDUSTRIES ARE MOST VOCAL IN ADVOCATING THIS OR
SOME OTHER MORE SELECTIVE SOLUTION TO THEIR EXTERNAL
TRADE PROBLEMS. SNB AND GOS HAVE REPEATEDLY STATED
THAT TWO-TIER MARKET WOULD BE TRIED ONLY AS LAST
RESORT.
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7. JOLLES NOTED ONE SIGN OF TIMES WAS REACTION TO FACETIOUS REMARK HE HAD MADE AT END OF FEB 20 RESTRICTED MEETING OF OECD EXECUTIVE COMMITTEE IN SPECIAL SESSION (XCSS) AFTER UK REP HAD MENTIONED BRITISH PROPOSAL FOR GOVERNMENT TO PROVIDE ADJUSTMENT FOR INFLATIONARY COST INCREASES OCCURRING AFTER DATE OF EXPORT CONTRACT SIGNATURE AND PRIOR SHIPMENT DATE. JOLLES APPARENTLY REMARKED THAT THIS WOULD SUGGEST THAT SWISS SHOULD PROPOSE TO THEIR PARLIAMENT THAT EXPORTERS RECEIVE FROM GOVERNMENT ADJUSTMENT TO COMPENSATE FOR CURRENCY APPRECIATION BETWEEN DATE CONTRACT SIGNED AND GOODS SHIPPED. JOLLES WAS APPALED TO FIND THAT SOME IN OECD SECRETARIAT AND OTHER DELEGATIONS HAD APPARENTLY THOUGHT HE WAS SERIOUS
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WHEN IN FACT HE ASSURED EMBOFF HE WAS ONLY TRYING INDICATE TO BRITISH WHAT HE THOUGHT OF THEIR SCHEME.

8. FEDERAL COUNCIL AT LAST WEEK'S MEETING EXTENDED FOR SIX MONTH TRIAL PERIOD EXISTING EXPORT RISK GUARANTEE PROGRAM TO COVER CONTRACTS OF AS SHORT AS THREE MONTHS. PROGRAM, WHICH CONTAINS EXCHANGE RISK COVERAGE, HAD PREVIOUSLY BEEN LIMITED TO AT LEAST ONE YEAR CONTRACTS. PURPOSE OF CHANGE, WHICH IS IMMEDIATELY EFFECTIVE, IS TO ALLOW MORE CONSUMER GOODS EXPORTS TO RECEIVE COVERAGE. OPINIONS DIFFER AMONG EXPORTERS OF CONSUMER GOODS AS TO WHETHER THIS WILL HELP THEM VERY MUCH SINCE COST OF INSURANCE MAY WELL OUTWEIGH POTENTIAL RISKS DURING SHORT PERIOD COVERED BY MOST CONSUMER GOODS EXPORT CONTRACTS. JOLLES ACKNOWLEDGED THAT GOS WAS BANKING ON LITTLE FURTHER SF APPRECIATION AND EXPECTED MOST CONSUMER GOODS EXPORTERS TO CONTINUE COVER THEMSELVES AGAINST NORMAL SHORT-TERM COMMERCIAL RISKS THROUGH BANKS OR OWN RESOURCES. HOWEVER, SHOULD SHARP FURTHER SF APPRECIATION OCCUR, CLAIMS AGAINST PROGRAM COULD EITHER FORCE IT TO BE CURTAILED OR REQUIRE THAT

GENERAL REVENUE FUNDS BE SOUGHT TO COVER LOSSES.
SIX-MONTH TRIAL PERIOD WILL ASSURE THAT THESE
ASPECTS WATCHED CLOSELY.

GOM EMBASSY COMMENT. WE DO NOT EXPECT THAT SWITZERLAND
WILL DEPART FROM GENERALLY LIBERAL APPROACH
TO FOREIGN TRADE BUT THERE ARE DANGERS OF MOVE IN
THIS DIRECTION SHOULD A) ECONOMIC CONDITIONS AND
CAPITAL CONTROLS NOT MOVE SF INTO MORE DESIRABLE
RELATIONSHIP WITH OTHER MAJOR TRADING CURRENCIES,
AND B) OTHER COUNTRIES FEEL OBLIGED FOR THEIR OWN
REASONS ADOPT PROTECTIONIST DEVICES.
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